

Message Text

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INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

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COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 ACDA-19 IO-14

AEC-11 SCI-06 DRC-01 /219 W
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R 061910Z NOV 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8567

INFO USMISSION NATO BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 16060

DEPARTMENT PLEASE PASS TREASURY, DEFENSE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: OFFSET

SUMMARY: IN NOVEMBER 6 OFFSET TALKS, GERMANS RAISED THEIR OFFER TO OVER \$1.4 BILLION BY ADDING \$300 MILLION IN MILITARY PROCUREMENT AND INDICATING VIRTUAL CERTAINTY OF \$72 MILLION PURCHASE OF URANIUM ENRICHMENT SERVICES. THEY INSISTED THAT THEY COULD GO NO HIGHER AND ARGUED AGAIN FOR INCLUSION IN OFFSET OF GERMAN SOFA AND BERLIN COSTS. GERMANS DID NOT RPT NOT PROPOSE LOANS TO BRIDGE REMAINING GAP. UNDER SECRETARY CASEY EXPLAINED TIME FRAME AND IMPLICATIONS OF JACKSON-NUNN AMENDMENT. WHILE POINTING OUT SHORT-TERM ADVANTAGE OF USING 22-MONTH PERIOD TO OFFSET FY 74 OUTLAYS, HE WARNED AGAINST RISK OF BORROWING AGAINST FUTURE YEARS. HE STRESSED THAT A MERE 3 PERCENT INCREASE IN ALLIED DEFENSE BUDGETS FOR ADDITIONAL PROCUREMENT WOULD
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ASSURE THAT US DEFENSE CONTRIBUTION TO NATO WILL

REMAIN AT PRESENT LEVEL. RE MULTILATERAL ARRANGEMENTS, MR. CASEY REASSURED GERMANS THAT US WILL CONSIDER A SATISFACTORY OFFSET AGREEMENT AS SUFFICIENT FRG CONTRIBUTION. IT WAS AGREED TO EXCHANGE ANALYSES OF JACKSON-NUNN IMPLICATIONS AND MEET FOR FURTHER DISCUSSIONS IN EARLY DECEMBER. END SUMMARY.

1. AMBASSADOR HERMES OPENED NOVEMBER 6 OFFSET DISCUSSIONS WITH STATEMENT THAT FRG HAS DECIDED TO RAISE ITS OFFER AS FOLLOWS:

(A). MILITARY PROCUREMENT COMPONENT HAS BEEN INCREASED TO \$1.1 BILLION (DM 2.75 BILLION). THE ADDITIONAL DM 750 MILLION WILL BE SPENT ON HAWK IMPROVEMENT PROGRAM, LANCE, AND SOME LESSER WEAPONS PURCHASES. (B). GERMAN CABINET DECISION TO HELP FINANCE PURCHASE OF URANIUM ENRICHMENT SERVICES FOR INCLUSION UNDER OFFSET MAKES NUKEM PURCHASE OF \$72 MILLION WORTH OF SEPARATIVE WORK UNITS FROM AEC VIRTUALLY CERTAIN. NUKEM REPS (STEPHANY, ET AL.) WILL VISIT WASHINGTON NOVEMBER 12-16 FOR PERTINENT DISCUSSIONS.

2. WITH DM 2.75 BILLION FOR MILITARY PROCUREMENT, DM 600 MILLION FOR INFRASTRUCTURE (BARRACKS, ETC.) IMPROVEMENTS, DM 180 MILLION FOR URANIUM ENRICHMENT SERVICES, AND DM 2 MILLION EQUIVALENT TO LAND TAXES AND LANDING FEES HERETOFORE PAID BY US, GERMAN OFFER NOW STANDS AT DM 3.532 BILLION (ABOUT \$1.413 BILLION). HERMES INSISTED THAT THIS FIGURE REPRESENTS MAXIMUM FRG CAN OFFER AND ONCE AGAIN PROPOSED ADDITION TO OFFSET OF DM 3 BILLION FOR 2-YEAR PERIOD ARISING FROM GERMAN SOFA AND BERLIN COSTS. HE DID NOT RPT NOT PROPOSE LOANS TO BRIDGE GAP.

3. UNDER SECRETARY CASEY EXPRESSED APPRECIATION FOR GERMAN EFFORTS TO INCREASE FRG OFFER, BUT CAUTIONED THAT IT MUST BE EVALUATED CAREFULLY IN CONTEXT OF OUR OVERALL OBJECTIVE. IN EXPLAINING IMPLICATIONS OF JACKSON-NUNN AMENDMENT, THE UNDER SECRETARY OBSERVED THAT IN A POSITIVE SENSE THIS MEASURE WOULD PROVIDE

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FOR GREATER STABILITY: TO THE EXTENT THAT THE ALLIES WOULD MEET ITS REQUIREMENTS, IT WOULD REMOVE LONG-STANDING UNCERTAINTIES ABOUT US FORCE LEVELS IN EUROPE. AT SAME TIME, THE NEW LAW WOULD IMPOSE MORE SEVERE STANDARDS AND REQUIREMENTS FOR OFFSET AND BURDEN-SHARING THAN HAD BEEN APPLIED IN THE PAST. MR. CASEY ADDED THAT WE HAD SUCCEEDED IN EXTENDING THE TIME LIMITS ORIGINALLY IMPOSED BY THE AMENDMENT. HE

EXPLAINED THE TIME FRAME WHICH WOULD PERMIT APPLICATION OF RECEIPTS FROM ALLIES THROUGH MAY 1975 TO OFFSET US MILITARY EXPENDITURES INCURRED IN CURRENT FISCAL YEAR. WHILE THIS WOULD MAKE IT MUCH EASIER FOR THE ALLIANCE TO MEET THE 100 PERCENT OFFSET REQUIREMENT, MR. CASEY CAUTIONED THAT TAKING ADVANTAGE OF THIS PROVISION MEANT BORROWING AGAINST THE FUTURE AND COULD THEREFORE LEAD TO GRAVE PROBLEMS LATER, SHOULD THE AMENDMENT BE RE-ENACTED. IT WAS AGREED THAT US SIDE

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WOULD PROVIDE TO FRG A WRITTEN ANALYSIS OF THE AMENDMENT AND ITS IMPLICATIONS.

4. THE UNDER SECRETARY STRESSED THAT THE ALLIES NEED TO INCREASE THEIR DEFENSE BUDGETS BY ONLY 3 PERCENT FOR ADDITIONAL PROCUREMENT IN ORDER TO ASSURE CONTINUATION OF THE US DEFENSE CONTRIBUTION TO THE ALLIANCE AT PRESENT LEVELS.

5. WITH REFERENCE TO MULTILATERAL BURDENSARING, MR. CASEY ASSURED THE GERMAN SIDE THAT FRG OFFSET AND BURDENSARING WILL BE REGARDED BY THE US AS THE GERMAN CONTRIBUTION TO ANY MULTILATERAL ARRANGEMENT; WE WOULD NOT EXPECT THE GERMANS TO PAY TWICE.

6. AMBASSADOR HERMES CONVEYED THE HOPE OF THE GERMAN CABINET THAT A NEW OFFSET AGREEMENT COULD NOW BE CONCLUDED ON THE BASIS OF THE INCREASED GERMAN OFFER AND INCLUDING \$1.2 BILLION GERMAN SOFA AND BERLIN COSTS. HE EMPHASIZED THAT THERE WAS NOTHING MORE THE
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FRG COULD OFFER, AND THAT THE GERMAN SIDE HOPED TO REACH AGREEMENT IN PRINCIPLE NOW. AS FOR INCLUSION OF THE SOFA AND BERLIN COSTS, HERMES ARGUED THAT UNDER WHAT HE TERMED "THE NEW CONCEPT" CREATED BY THE JACKSON-NUNN AMENDMENT, EVERY CONTRIBUTION TO ALLIANCE DEFENSE MUST BE TAKEN INTO ACCOUNT. US REFUSAL TO ALLOW INCLUSION OF GERMAN SOFA AND BERLIN COSTS WOULD RENDER THE FRG HELPLESS TO SATISFY THE REQUIREMENTS OF THE JACKSON-NUNN AMENDMENT AND THUS "ROCK THE ALLIANCE".

7. IN RESPONSE, UNDER SECRETARY CASEY EXPRESSED STRONG SKEPTICISM ABOUT THE FEASIBILITY, ON ECONOMIC AND POLITICAL GROUNDS, OF COUNTING GERMAN SOFA AND BERLIN COSTS TOWARD OFFSET. ASIDE FROM THE POSSIBILITIES OFFERED BY THE TIME FRAME OF THE JACKSON-NUNN AMENDMENT, THE GERMAN OFFER WAS STILL LESS THAN 43 PERCENT OF OUR NEEDS. WE NEEDED TIME TO STUDY THE GERMAN OFFER AND THE IMPLICATIONS OF OUR OWN NEW RULES. IT WAS NOT YET CLEAR, FOR INSTANCE, WHETHER WE WOULD BE ABLE TO DEDUCT A BOP FEEDBACK PERCENTAGE FROM OUR OFFSET NEEDS AS WE HAD DONE IN PREVIOUS AGREEMENTS.

8. IT WAS AGREED THAT THE US AND GERMAN SIDES WOULD EXCHANGE ANALYSES OF THE JACKSON-NUNN REQUIREMENTS AND MEET AGAIN DURING THE FIRST HALF OF DECEMBER TO DISCUSS THESE AND OTHER QUESTIONS. AS FOR PRESS GUIDANCE, IT WAS AGREED TO SAY ONLY THAT THE TWO SIDES HAD HELD A FRUITFUL EXCHANGE OF VIEWS, HAD CONTINUED THEIR EXAMINATION OF OFFSET POSSIBILITIES, AND HAD AGREED TO MEET AGAIN IN A FEW WEEKS' TIME TO RESUME THEIR DISCUSSIONS.
HILLENBRAND.

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